Ku Swee Yong's *Real Estate Riches*, *Building Your Real Estate Riches* and *Real Estate Realities* have become valuable resources for property investors in Singapore during the past few years. In his new book, he takes stock of the prolonged downturn and weak market conditions and offers useful defensive strategies in the face of supply gluts and weakening prices.

The lead article warns of potential risks arising from an extremely high rate of home ownership in Singapore, followed by frank insights into local property segments. The book also includes illuminating coverage on some regional markets which he recommends investors to look into.

"This book offers a scan of Swee Yong's brilliant analyses and extensive knowledge not only of the local Singapore market, but also of the markets he sees potential in, including the risks of downside and opportunities for upside. His honest review in regard to real estate policy, property demand and supply, as well as comprehensive coverage of markets, near and far, is reading that you do not want to miss before you embark on your next move and decision pertaining to real estate."

— *John Tan Teck Shoon*
Senior Lecturer, School of Design & Environment, Ngee Ann Polytechnic

"Swee Yong is no crowd-pleaser. With a knack for sifting out noises in the market, he goes straight to the heart of issues plaguing the property sector. At times, Swee Yong's analyses glean on how some policies can be a double-edged sword and the need for fine and timely calibration. He gives his readers the unadulterated version of his views based on data, even if they are deemed unpopular or up against the general tide. And it takes both courage and foresight to raise the hard questions."

— *Lynette Khoo*
Correspondent

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KU SWEE YONG
WEATHERING A PROPERTY DOWNTURN
Marshall Cavendish Editions

KU SWEE YONG

from the author of the bestselling REAL ESTATE RICHES, BUILDING YOUR REAL ESTATE RICHES and REAL ESTATE REALITIES

WEATHERING A PROPERTY DOWNTURN

DEFENSIVE PLAYS FOR REAL ESTATE INVESTORS

Reviews for *Weathering A Property Downturn*

"Swee Yong is sharing the truth about Asia's property markets: Malaysia, Cambodia, Japan and Singapore. He is not just telling the "Good Things" which people like to hear. His understanding of the market, backed with data and information from reputable sources really foretells the market direction. If only more investors could accept the facts and follow the recommendations as advised by our dear international property advisor, Ku Swee Yong!"

— SHAW YONG CHEE CHUNG
Key Executive Officer, Century 21 SY Real Estate, Singapore

"Insightful, very thorough, well backed up research, and always enjoyable to read. Swee Yong is indeed a very diligent analyst who puts in consistent efforts into the late hours in order to produce this high quality read. His stories lead the readers to understand more about property markets in Singapore and other countries, expanding their knowledge, imagination, enabling them to have objective consideration of opportunities that the markets present them."

— YENNY ZHANG
Entrepreneur

"Swee Yong is one of the few real estate professionals whom I highly respect. His vast experience in the industry and in-depth understanding of the markets often make his opinions interesting, relevant and, more importantly, taken into consideration. This book is another revelation of his insightful understanding of property markets."

— NGUON CHHAYLEANG
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"Once again, Swee Yong has written a timely study that challenges popular assumptions and is replete with hard data and irrefutable analysis. It would be remiss not to take heed of the storms ahead as well as the safe havens he's taking pains to point out. Swee Yong's frank assessment is what any serious investor needs to navigate uncertain times."

— ANTHONY B K CHENG
Regional Insurance Advisor

"The book worthy to hold on and anchor the fundamentals as one transcends Singapore's real estate adversities. Swee Yong's bottom-up research, coupled with market based data mining techniques & investment oriented "deep dive" analysis, dissects and expounds the intricacies of local as well as regional real estate alternatives beyond our shores."

— E K CHNG
Avid Fan and Reader

"A compendium of real estate wisdom — this book offers a scan of Swee Yong's brilliant analyses and extensive knowledge not only of the local Singapore market, but also of the markets he sees potential in, including the risks of downside and opportunities for upside. His honest review with regards to real estate policy, property demand and supply, as well as comprehensive coverage of markets, near and far, is worth your time. Aspiring students, ambivalent home hunters and owners, and astute investors will greatly benefit from his plethora of perspectives. It is a reading that you do not want to miss before you embark on your next move and decision pertaining to real estate."

— JOHN TAN TECK SHOON
Senior Lecturer, School of Design & Environment, Ngee Ann Polytechnic

"I am particularly impressed with the articles on Japanese property investment especially at this time when local property market is facing a downturn and most of the major foreign property markets are at the top of their cycle."

— LOW SOO HIOK
Retired OCBC Operations Manager, Hong Kong & London

"Swee Yong is no crowd-pleaser. With a knack for sifting out noises in the market, he goes straight to the heart of issues plaguing the property sector. At times, Swee Yong's analyses glean on how some policies can be a double-edged sword and the need for fine and timely calibration. He gives his readers the unadulterated version of his views based on data, even if they are deemed unpopular or up against the general tide. And it takes both courage and foresight to raise the hard questions."

— LYNETTE KHOO
Correspondent

"Swee Yong has produced yet another interesting and insightful book that continues to deliver good updates with logical analysis, backed by supporting figures and data. He has a pragmatic approach in his perspectives and offers fresh and practical tips. He has done his homework well as his book reveals his forte and competency in the field of real estate. It is a book worth reading."

— JUDY TAN L. S.
Media Executive

WEATHERING A PROPERTY DOWNTURN

DEFENSIVE PLAYS FOR REAL ESTATE INVESTORS

KU SWEE YONG

Marshall Cavendish Business

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"If I could teach you anything, it would be to teach you
the method of inquiry," said Prof David Harvey,
Distinguished Professor of Anthropology and Geography,
Graduate Center of the City University of New York, speaking
at the London School of Economics and Political Science,
Thursday 10 Dec 2015, about the excesses of capitalism
and the insane over-building of empty cities.

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PREFACE

So I was probably the earliest in the market to call a sell on the Singapore market. In Nov 2013, when the URA Private Property Price Index was at its peak, I presented the Singapore residential property outlook to the colleagues in Century 21 Singapore and concluded by saying that prices will start to fall, due to the cooling measures and the overwhelming supply. I suggested to my colleagues that they might like to speak with their clients who own more than two residential units in Singapore. And for these clients, perhaps we could recommend that they sell at least one or more of their investment units.

Although I was viewed as being too pessimistic at that time, the index dropped from 154.6 in 3Q2013 to 141.6 in 4Q2015, a drop of 8.4% over two years.

Over the last two years, supply of new HDB flats, Executive Condominiums (ECs) and private residences continued to increase. Vacant ECs and private residences total 28,054 units as of 4Q15.

But my views about the residential are even more bearish today not simply because of the 28,054 vacant units and the roughly 130,000 supply of HDB flats, ECs and private residences in the three years of 2016 to 2018. I think that rentals and prices will turn further south in 2016 to 2018 because the economic environment in Singapore is dim, made worse by several of the faltering economies which we are inextricably tied to as trading partners: China, Indonesia and Malaysia.

And many investors seem to ignore four obvious facts staring us in the face:

1. As the economy slows, employment becomes more challenging and landlords hold on to more vacant units, interest rates are set to rise, forcing some owners to drop their investments;

2. When job creation is weak, Singapore will not be able to attract as many foreigners as we have done during the peak years of 2006–2008;
3. The Ministry of Manpower has made it clear that Singapore will not be as generous in offering all forms of work passes as it would rather continue to push for higher productivity with slower headcount growth;
4. The exuberant grabbing of all the new launch apartments in Iskandar, Johor, during the years 2011 to 2013 will bring about up to 300,000 units of new supply from 2016 onwards, mostly in the residential category.

There is no sign that demand and population growth can increase sufficiently to adsorb the excess space. Due to the construction cycle of three to four years, we can probably confidently forecast that prices may fall for the next three years due to the excessive supply. From 2019 and beyond, I think the outlook is too murky to make any calls about the Singapore residential market.

Drawing a lesson from the years 2001 to 2005 when strong supply coincided with a weak economy (which was dragged along a bumpy bottom due to the dotcom crash, SARS, bomb blasts in Bali and Jakarta), the real estate market was stagnant, half-dead with few transactions amidst vacancies that hovered around 8%. Even in 2004 and 2005, as Singapore slowly extricated herself out of the depth of a SARS-hit recession, average number of transactions in the private sector averaged 614 units of developers' sales and 638 units in the resale market per month. Private residences were about 8.5% vacancy rate, or 18,800 vacant units, through that period.

Compare that to the situation today. The average number of units transacted per month in the two years from Jan 2014 to Dec 2015 was 614 from developers and 509 in the resale market. Vacancies averaged around 7.5%, or 23,160 vacant units, during this period.

One additional point, while the vacancy of ECs was below 5% in the years 2004 and 2005, the vacancy of ECs averaged 11.8% (about 1,837 units) in the two years of 2014 and 2015.

In 2005, Singapore could drive physical demand for properties through jobs creation by growing the investment banking and private banking sectors and licensing two integrated resort casinos. We also opened our doors to foreign students and high net worth foreigners who want to be permanent residents. The economic situation in the global economy was solid.

The scenario in 2016 is not so optimistic. So investors have to brace themselves for a long drag.

Along similar trends, the other property segments in Singapore (industrial, office, retail, warehouse) are seeing vacancies trend up in the midst of a slowing economy. Rising interest rates will hit business owners and landlords alike. And loans for commercial properties are likely to increase more and faster than home loans. So, with vacant space available in all corners of Singapore, for example the 43 million sqft of vacant factory and warehouse space as at Sep 2015 (equivalent to 43 empty Vivocity's!), the situation for property owners is already dicey.

Worse, it looks like we will be heading into higher and higher vacancies in the next three years.

What went wrong?

I am not a permabear. Perhaps I am disappointed because I used to be a cheerleader for Singapore and Singapore's properties. I was a major promoter of everything beautiful in Singapore while working as the head of Singapore Tourism Board's Jakarta office in 2003. Then while working with the largest residential developer Far East Organization, I was frequently promoting Singapore real estate in Indonesia, Malaysia and Taiwan. Thereafter, working with Savills Singapore, I had the honour to promote Singapore and Sentosa Cove to high net worth investors around the world: UK, Monaco, China, Hong Kong, etc. The bullet points on my Powerpoint slides go: Singapore is safe, our infrastructure runs like clockwork, no natural disasters, no floods, solid economic growth, stable banking system and very friendly to foreigners investing into our real estate market.

I was the first to call, in November 2006, for the Singapore market to cross $4,500 per sqft. And even when Bear Sterns and

Lehman Brothers folded in 2008, I tried to reassure the market that Singapore properties will not melt down from the deferred payment schemes and over-leverage.

But today, things are not rosy: Singapore's manufacturing declined for more than half a year in 2015, total trade shrunk year-on-year in every month since July 2014 (18 consecutive months to December 2015). Services growth has slowed as banks and trading houses struggle with low commodities prices and weak economic growth in our biggest trading partners: Europe, Australia, China, Indonesia and Malaysia.

It is easy to purposely blind ourselves to bad news. Just as I hate to open the mailbox to see my monthly bills. But the excessive land sales and HDB launches in the past five years coupled with a shutting of doors to immigration and new workers will surely lead to a decline in rentals and home values.

More importantly, how might we correct it?

How might policy makers do better to avoid such massive swings from excessive housing units in 2002 to insufficient housing units in 2007 to and the excesses we are building today?

And how might we, industry participants and policy makers, make Singapore attractive again for foreign and local real estate investors?

Our extreme home-ownership was a blessing of solid policy planning by Lee Kuan Yew's government, including visionary long term planners such as Dr Liu Thai Ker and Mr J Y Pillay. It allowed us to focus on education and growing our economy without having to worry about our families' security and comfort. However, as we grow beyond the Lee Kuan Yew era, perhaps we ought to reflect on whether our 90% home ownership level is still a positive thing and not threading into risky zones, perhaps becoming a bane of our society even while the rest of the world progresses into an asset-light mode.

It is with these thoughts that I open this book. The risks of an extremely high home ownership situation backed by a uniquely Singapore "CPF for home payment scheme" could bring about new risks when the world is becoming more nimble and fluid.

Following these thoughts, I asked if developers and investors would consider having homes that are built to last for centuries, for our children and their children, instead of creating a culture of "disposable products" and constructing "just get by" and "so-so" quality homes and then destroying these homes with their shared history, culture, neighbourhoods etc., once every 25 to 30 years though enbloc demolitions.

Events in the past 18 months, between my third book *Real Estate Realities* and putting this book together, have put the Singapore market down further and therefore there is no surprise that the articles in this book relating to Singapore might depress readers. However, I am very bullish about Cambodia and Japan and those articles should bring more cheer to readers. I am as optimistic now about the Japan real estate market as I was about Singapore's in 2006 when I foretold the upturn led by the integrated resorts, jobs growth and population increase.

As usual, the information and outlook provided by articles in this book are possible because of the generous sharing of market insights and knowledge by my friends, my colleagues and fellow property agents. I am grateful for the assistance of Tan Kok Keong, Brian Wee, Matthew Tan Ju Wei, Paul Ho Kang Seng, Feily Sofian, Christine Yu Wen Hsin, Janice Ting Li Ling, Nguon Chhayleang, Makoto "Micky" Kojima, Luke Ng Kai Man and many others who have contributed to my understanding of the markets.

Any errors in this book are mine.

Finally, in the two years since I called for a sell on Singapore properties, I have been told that my views are too pessimistic, even though they have repeatedly panned out to be correct. Today, even more investors, industry insiders and property agents are wishing that my forecasts are wrong. And for the goodness of Singapore's future, I wish that my predictions are wrong too.

But what if I am correct?

And if I am correct, where should we invest our energies on?

1. Record high home ownership: what are the costs and risks?

"Progress is impossible without change, and those who cannot change their minds cannot change anything."

— George Bernard Shaw

I always feel heartened to see the Singapore government provide additional care and assistance to our financially-challenged relatives and friends. After all, about one in four resident households in Singapore earn less than $3,000 per month from employment (including employers' contribution to CPF). Do note that this is the income of an entire household. It is not the income of an individual resident. Neither is this the take home pay, nor disposable income.

To take care of today's costs of basic necessities such as food, transport, healthcare, children's school fees, telephone charges, rentals, utilities bills, etc., many families need assistance. According to data from "Key Household Income Trends, 2014" published by the Department of Statistics, Singapore (SingStat), there were 292,800 resident households with monthly household incomes of up to $2,999. These families make up 24.2%, or about one in four, of resident households in Singapore.

Table 1: Resident households categorized by monthly household income from 2009-2014.

Source: Century 21 (IPA), Department of Statistics, Singapore

Resident Households by Monthly Household Income from Work, 2009–2014

	%							Number of households					
	2009	2010	2011	2012	2013	2014		2,009	2,010	2,011	2,012	2,013	2,014
Year	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**		**1,119,600**	**1,145,900**	**1,146,200**	**1,152,000**	**1,174,500**	**1,200,000**
Zero Working Person	9.6	10.5	9.3	9.2	9.4	10.4		107,482	120,300	106,597	105,984	110,403	124,800
Retiree households	5.3	5.4	5.8	6.0	6.1	7.0		59,339	61,879	66,480	69,120	71,645	84,000
Below $1,000	4.1	3.5	3.2	3.0	2.7	2.3		45,904	40,107	36,678	34,560	31,712	27,600
1,000 – 1,999	7.8	7.0	6.5	6.2	6.2	5.9		87,329	80,213	74,503	71,424	72,819	70,800
2,000 – 2,999	8.6	8.2	7.1	6.3	6.3	5.8		96,286	93,964	81,380	72,576	73,994	69,600
3,000 – 3,999	8.9	8.3	7.6	6.6	6.7	6.0		99,644	95,110	87,111	76,032	78,692	72,000
4,000 – 4,999	8.1	7.9	7.2	7.0	6.3	5.9		90,688	90,526	82,526	80,640	73,994	70,800
5,000 –5,999	7.5	7.4	7.0	6.8	6.4	6.1		83,970	84,797	80,234	78,336	75,168	73,200
6,000 – 6,999	6.9	6.7	6.5	6.1	5.8	5.8		77,252	76,775	74,503	70,272	68,121	69,600
7,000 – 7,999	5.7	5.7	6.0	5.8	5.6	5.4		63,817	65,316	68,772	66,816	65,772	64,800
8,000 – 8,999	4.7	5.1	5.4	5.4	5.1	5.1		52,621	58,441	61,895	62,208	59,900	61,200
9,000 – 9,999	4.1	4.2	4.7	4.7	4.6	4.7		45,904	48,128	53,871	54,144	54,027	56,400
10,000 – 10,999	3.7	3.8	4.1	4.1	4.4	4.7		41,425	43,544	46,994	47,232	51,678	56,400
11,000 – 11,999	2.9	3.0	3.3	3.8	3.7	3.6		32,468	34,377	37,825	43,776	43,457	43,200
12,000 – 12,999	2.4	2.6	2.7	3.3	3.4	3.3		26,870	29,793	30,947	38,016	39,933	39,600
13,000 – 13,999	2.2	2.1	2.4	2.6	2.8	3.0		24,631	24,064	27,509	29,952	32,886	36,000
14,000 – 14,999	1.8	1.8	2.1	2.2	2.6	2.6		20,153	20,626	24,070	25,344	30,537	31,200
15,000 – 17,499	3.2	3.5	4.2	4.6	4.7	4.9		35,827	40,107	48,140	52,992	55,202	58,800
17,500 – 19,999	2.1	2.2	2.8	3.1	3.3	3.5		23,512	25,210	32,094	35,712	38,759	42,000
20,000 & over	5.7	6.6	8.0	9.2	9.9	11.0		63,817	75,629	91,696	105,984	116,276	132,000

Note:
According to the definition from the Department of Statistics, Singapore, "A resident household refers to a household headed by a Singapore citizen or permanent resident. A household refers to a group of two or more persons living together in the same house and sharing common food or other arrangements for essential living. It also includes a person living alone or a person living with others but having his own food arrangements. Although several persons may be living in the same house, they may not be members of the same household." And, "household income from work includes employer CPF contributions."

Included in these numbers are 84,000 households (equivalent to 7%) that are classified as "retiree households" with no working persons and therefore, zero income from work.

And we know very well that the number of retiree households is growing. We also know the number will grow a lot faster as more and more baby boomers celebrate their 60th birthdays in the next two decades. According to SingStat's "Population Trends 2015", more than 400,000 residents crossed their 60-year mark between 2005 and 2015 and we should expect at least 600,000 residents to turn 60 in the 10 year period from 2015, and another 600,000 in the period from 2025 to 2035.

It is inevitable. Over the next 20 years, the category termed "retiree households" will grow faster simply due to age and health reasons. And when we hit economic dislocations, some may be forced into early retirement due to redundancies and irrelevant skill sets, pushing up the "retiree households" number faster than we would anticipate simply by extrapolating from the aging demographics.

So I was glad to read National Development Minister Lawrence Wong's blog (mndsingapore.wordpress.com) on 15 December 2015, which updated that the "Fresh Start Housing Scheme" is being studied by the Ministry of National Development (MND) and the Housing & Development Board (HDB) to assist families which are currently renting HDB flats, to own their homes eventually.

In a blog post titled "Helping Public Rental Families Own a Home Again", the Minister highlighted the consultation with a group of former flat owners who are now living in public rental flats. Many of these families provided feedback that they desire to own their homes again, for their children to grow up in. However, given their economic conditions and being second timers, they are faced with various challenges, such as securing mortgages and paying the resale levy in cash.

The minister suggested several ideas for HDB to consider: a Fresh Start Housing Grant to reduce the cash outlay, offering another HDB concessionary loan and shortening the leases of 2-room Flexiflats with a longer Minimum Occupation Period (MOP) to lower the costs of such flats that are now only available to elderly citizens.

The most note-worthy part of this blog post, in my opinion, is the feedback from former rental tenants who have now become home owners: "They all agree on the importance of securing regular employment, working hard, and putting their children through school, so that the problems do not continue with the next generation."

Kudos to the government for considering the plight of our low income families and looking at ways to help them own their homes. However…

Let us open our minds and expand our thinking

Perhaps we should go one step further and consider this situation in broader terms and consider the root of the issue: why are these families renting?

I would caution that families on the verge of mending their balance sheets are still vulnerable to fall back into financial distress.

What these low income families need is a secure roof over their heads, not necessarily another possession in the form of a flat. And certainly not being saddled with a long term liability in the form of a loan. They should not be tied down with home loans, and definitely not further shackled with extended Minimum Occupation Periods!

And therefore, if we are deeply concerned about these families' overall well-being, we should help them build up their household balance sheet and cash flow through offering them secure long term rentals with options to upsize (or downsize as the case may be). The HDB should consider guaranteeing these families roofs over their heads through rental agreements which:

- Allow these families to renew the leases at their option, indefinitely, unless the extent of default is severe (and the severity could be pre-defined to forewarn recalcitrant families);
- Allow these families to rent larger units from HDB, including 4-room and 5-room HDB flats, when the household sizes grow

(it will save the families thousands of dollars in terms of stamp duties if they had to sell a small HDB flat to upgrade to a larger HDB flat);

- Allow the older families to rent smaller units if the elders are retiring and/or that the children have gained independence and moved out.

Given that the take home pay and disposable income might pose cashflow challenges to these families, we might even consider allowing them to pay for their monthly rentals using their Central Provident Fund (CPF) monies. At this point, the purists would be shouting "taboo" and pointing out that CPF monies are meant for supporting us in retirement. But what difference does it make to a low income family if their CPF monies were locked up in the purchase of their 2-room flats even after they have retired? Paying rentals using CPF monies would at least allow them more cash to improve their daily lives prior to their retirement.

Of course we would also need to add programmes to the assistance package, such as educating these families about financial planning, skills training for remaining relevant in the job market, building financial resilience and putting enough cash aside for their retirement. In reality, most of these families are too busy trying to make ends meet for themselves and their children, that the minimum we should do for them is assure them of a long term, low cost and secured rental flat.

Long term secured leases is a better alternative

Encouraging and helping the families from public rental flats to own their flats is simply kicking the can down the road. Eventually the elder members of these families will retire from work, either due to health or economic downturns or skills mismatch. And when they retire, not only do they need to rely on their cash savings, they and their children should not be saddled with an outstanding home loan and paying loan interests with their meagre savings.

A multi-year study by Professor Kath Hulse undertaken for the Australian Housing and Urban Research Institute (AHURI) concluded that low-moderate income households who purchase homes experience significant financial risks, particularly in the early years of purchase, which have to be weighed against the non-financial benefits such as greater security and stability.

In Germany and several European countries, laws exist to protect low income households from landlords who may seek unreasonably high rental increments or terminate the tenancy agreements to take on higher paying tenants.

In Japan, one form of lease agreement (called the Standard Lease) allows the tenant the option to renew the lease as long as they like, with provisions for rental adjustments at each contract renewal. Low income tenants usually negotiate for Standard Leases. Landlords who wish to have the option of changing tenants when the agreements end would rely on Fixed Lease contracts.

There are many best practices in developed nations, including Singapore's role model Switzerland, that we can learn from. Adopting the relevant parts of such models will provide our lower income friends and relatives in Singapore with a long term, secured roof over their heads and let their children grow up in safe environments.

It is not rocket science, just a matter of will on the part of MND and HDB.

Then why the push for ownership?

Singapore's home ownership rate stands at a high 90.3% in 2014. The 10% of resident households who do not live in houses or apartments or flats that they own may be doing so out of necessity such as financial constraints, or simply out of their own preference to rent or to live with another household.

It is not entirely clear to me why the authorities prefer to encourage low income families to own their homes. As most of such cases necessitate the families to shoulder a long term liability in the form of HDB loans, I feel that the risks and benefits are not balanced.

As I understand from the policy makers, the benefits of home ownership include:

- Home ownership provides security of tenancy.
- These families can participate in Singapore's asset enhancement programme.
- Home ownership will anchor citizens and permanent residents (PRs) to Singapore, reducing the incidence of brain drain and emigration.

Let us review the merits of the benefits given above:

1. **Home ownership provides security of tenancy.**
   Provided the mortgages and property taxes are paid on time, home owners will not be evicted. On the other hand, for the low and medium income families, setting aside a stock of rental flats with tenancy guaranteed by HDB, i.e. no termination by HDB in cases of default, will offer the same sense of security. Providing rental flats to these low and medium income families will facilitate their family growth as they can upgrade into larger rental flats at a lower cost. These families save on various costs associated with having to sell the flat that they own and then purchasing a larger flat: stamp duty, legal fees, agents' fees, time and efforts needed for viewings and appointments, etc.

2. **These families can participate in Singapore's asset enhancement programme.**
   Asset enhancement brings wealth to families only if they own an investment property. Middle income families in Singapore generally own and occupy one property at any one time. Upgrading to another property by selling the current property does not mean that we become richer. In fact, the converse is usually true: we become laden with more debt. As an illustration, a young couple bought a 3-room flat 15 years ago direct from the HDB at $120,000 with $50,000 cash, CPF funds and government grants, supported with a $70,000 loan. Today this

family has two growing children and they sold the 3-room flat for $400,000 and upgraded to a 5-room resale flat nearer to several top secondary schools. The 5-room flat cost the family $550,000.

While they might have made a profit of $280,000 on their 3-room flat, this family has increased their liabilities and risks by about $150,000 when they upgraded to the 5-room flat. During this upgrade, they also had to top up the CPF interests that they would have otherwise earned, and pay for the stamp duty and legal fees for the next purchase. And we have not included the expenses related to their home ownership such as property tax and service & conservancy charges during these years. The few thousand dollars of stamp duties and legal fees would be sufficient to pay for more than a year of subsidised flat rentals and the property tax and service & conservancy charges could contribute to a few months of HDB flat rentals too.

The truth is, as we approach retirement with our one and only home, whether the price has appreciated or dropped, we will still need it as a shelter. There are no real profits to be gained from asset price increases of the properties we live in. And this is the issue that retirees with HDB flats are struggling with today: their flats have appreciated in value in the past 30 years, but they do not have enough cash savings to support their healthcare and daily expenses. These retirees' lifelong savings are locked up in HDB flats that cannot be conveniently monetised without making major adjustments to their daily lives. This common occurrence of being asset rich and cash poor adds to the financial stresses of the low and medium income retiree households.

3. **Home ownership will anchor citizens and PRs to Singapore, reducing the incidence of brain drain and emigration.**

   This line of reasoning sounds plausible as high transaction costs tend to "lock in" people. But I am sure we all know of people who have left Singapore to live overseas regardless of whether they own a flat or a private property. Perhaps there may be evidence, either through surveys of emigrants or PRs who gave up their Singapore residency status, that owning a home can really anchor people to Singapore, but these "exit interviews" are probably not published. To argue that decisions to plant a family's roots in another country may be swayed by ownership of properties when so many other factors may be at play, such as economic opportunities, costs of living, comfort, medical and healthcare, etc., is not completely convincing.

We might make a similar argument that the CPF system or our delicious local cuisines could anchor residents to Singapore. But these arguments are tenuous too.

Families will remain anchored to Singapore if they can live their dreams and enjoy the long term opportunities here. Some will remain anchored simply because they have no alternatives elsewhere. Those who have the means will always be lured by the thoughts of providing their families with better opportunities, or tempted by the magnets for capital and global talent such as Silicon Valley, China, Australia and Japan.

So, concluding from the above benefits and the counter-arguments, I believe that there is no need to push hard for home ownership, especially not for the low and the medium income families. Providing assurance to low-income families in rental flats by guaranteeing that (a) they will never be chased out as long as rentals are paid; and (b) they will be able to rent larger flats when household sizes grow, will allow such families to build their finances and bring up their children in an environment as stable as one where the families owned the flats.

What are the risks and benefits of home ownership?

When Singapore was born as a nation, our visionary leaders such as Lee Kuan Yew, E W Barker, Goh Keng Swee, S Rajaratnam, Toh Chin Chye put their top priorities in creating jobs for the economy, supported by heavy investments into compulsory education (with a slant towards the practical courses that manufacturing companies needed) and moving the masses of migrant workers (who are here for the job opportunities) into safe, comfortable housing. Of course in the unsteady geopolitical environment of Asia in the 1950s and 1960s, the fast growing Singapore also needed to put a lot of energy into building its own defenses.

We have come a long way in the past 50 years and HDB has been celebrated as the largest developer in the world, having completed 1.1 million housing units. Private property developers have contributed another 400,000 units. For the past 25 years, our home ownership rate has hovered around the 90% level. We have patted ourselves on the back many times for achieving a success story, within a short period of nation building, which many wealthier countries could not even emulate.

As we look forward to the next 20 years, with an aging population increasing in retiree households, we need to ask if this high level of home ownership across the country is beneficial to Singapore as a whole.

As a caveat, I would like to clarify upfront that I am not suggesting that home ownership should be discouraged. We needed a solid home ownership programme during nation building, as we moved squatters from slums and housed them in comfortable, hygienic and safe neighbourhoods.

But from this point onwards, I believe that Singapore has reached a maximum level of home ownership and pushing the agenda further towards 100% home ownership might introduce more systemic risks than benefits. Therefore, I am suggesting that we should stop encouraging further home ownership and perhaps educate the market that long term renting may provide an alternative for more financial stability and flexibility for family growth or downsizing.

Scarcely any academic studies on this subject

While many papers have been written about the risks and benefits of home ownership for the consideration of individual families and individual investors, I can hardly find any researchers analysing the risks and benefits of home ownership at the country-wide, macro level.

Having considered a few benefits of home ownership above, let us look at some of the arguments against.

1. **Home ownership with loans creates additional liabilities and stifles entrepreneurship and business investments**

   One key reason that compels Singaporeans and PRs to sink their savings into homes is the use of CPF. Most of us view the funds in our CPF Ordinary Accounts as a stagnant pool of money that could be put to better use. Afterall, the money was taken out of our monthly salaries and if we do not use it to pay for our residential properties, then we would have to pay down our mortgages with cash, reducing our disposable income significantly.

   Handcuffed with a 30-year home mortgage with monthly repayment commitments, and perhaps a car loan and children's expenses, how many young families have the appetite to take on additional risks?

   While some analysts pointed to the high salaries in the civil service as the competition for talent in the private business sectors, I would say that the dearth of entrepreneurs and a lackluster start-up environment is caused by young families taking on long term mortgages too early in their lives.

   In December 2015, Finance Minister Heng Swee Keat highlighted new technologies developed by tech start-ups as a "key area of focus" in the transformation of Singapore's economy. Heng leads the Committee on the Future Economy for Singapore and I hope that his committee could delve deeper into this view that home ownership and property investments stifle Singapore's economic growth.

   In the field of high tech start-ups, talented manpower is precious. And for our young and bright families, once saddled with a home loan, they tend to seek employment security with stable monthly incomes instead of striking out to create new value in the business world.

So, how then do we reverse this idea that property will make us wealthy, an idea that has been ingrained in us for the past 50 years, and encourage investments of career, time and money in starting-up new business ventures?

2. Property ownership locks up capital in illiquid, unproductive assets

Our obsession with home ownership is not helping the Singapore economy in the long run. Lazy investors hoping to gain wealth through rental collection and property price increases, compounded by cheap mortgages, are withdrawing their financial investments from stocks and real businesses and locking them in properties. The only productive asset of high utilization value is the home we buy to live in. Homes that are built for investments created value for the land owner, the developer, the construction company, the property management firm and the mortgage banker. The lazy investor pays for the profits and the efforts of all the parties above, hoping that future tenants and a rise in capital value will bring handsome gains.

What if the wishful thinking does not materialize? The property owner has to foot the monthly mortgage repayments, and pay for utilities, maintenance bills and property taxes. During this time, most of the 99-year or shorter leasehold properties will be depreciating, while the CPF monies withdrawn will lose out on interest earnings.

3. And in the case of a prolonged down market…

Just as we experienced in the four years from 2000 to 2004, a multi-year period of stagnation in the property market (i.e. low transaction volumes, low rental volumes, declining rental rates and declining prices) brings a lot more pain to a broad sense of investors than that what we might see from bank foreclosure sales or calls from banks to top up capital in the mortgage loans.

Property owners who are forced into retirement during economic downturns risk losing more than their jobs: when they are unable to pay their mortgages, they would not only have to divest their properties, they still have to top up their CPF with unearned interests.

What about the risks to Singapore's banking system? When real estate values drop, the value of the home loans remain high.

As of 3Q2015, the total outstanding value of mortgages in Singapore was $222.8 billion, a whopping 56% increase from $142.9 billion in 1Q2010 five years ago. The total value of private residences and HDB flats stood at $827.6 billion in 3Q2015 giving Singapore's homes an overall Loan-to-Value (LTV) ratio of about 27%. If, just as we experienced in 2000 to 2004, property values dropped by 20% or during the Lehman Crisis, when private residential values dropped by 25%, the overall LTV for Singapore will rise to about 35%. Once we exclude the value of the homes which are fully paid up, the average LTV of all homes with loans will increase to perhaps 60% and and probably more than a few owners will have loans that are worth more than the value of the properties.

4. Policy measures to curb home loans have rendered property values to be worth nothing

In Singapore's context, considering how home loans are offered to borrowers based on the rules of the Mortgage Servicing Ratio (MSR) and Total Debt Servicing Ratio (TDSR), the value of a home means little compared to the value of the borrowers' income, cash savings and financial investments.

When granting home loans, the banks, abiding by the Monetary Authority of Singapore's (MAS) rules, take full cognizance of the borrower's personal cashflow and liquid wealth even though the properties are fully pledged to the banks. Therefore, should the whole property market devalue, say drop by a ridiculous 80%, as long as the borrowers' incomes are intact, will there be no mortgage defaults?

This is clear evidence that property values mean nothing to the authorities when they consider the risks of mortgages carried by the banks. The authorities are concerned about the risks of the combined mortgage books of all the banks' lending towards property investments in Singapore.

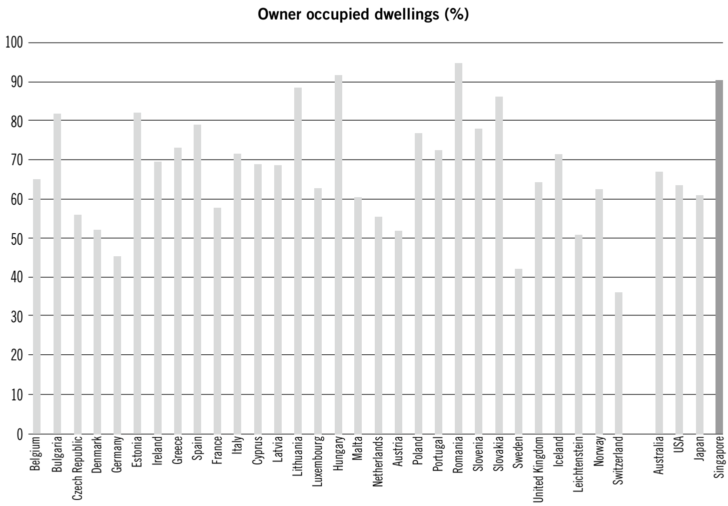
So what does it mean when banks and policy makers give little regard for our property value? Does it simply mean that property has negligible intrinsic value when viewed against the financial risks carried by the banks? And, if we were to take this approach consistently across all property segments, from luxury houses to the lowest cost public housing, the logical conclusion is that the authorities should not encourage further home ownership. Especially not for the families at the bottom quartile!

Some points to consider for housing Singapore's future

A quick comparison with European countries and other developed nations show Singapore ranked amongst the top in terms of owner-occupied homes. As each country has its unique set of real estate laws, inheritance taxes, tax breaks for property owners and renters, mortgage rules, government's public housing policies, etc. we cannot draw any conclusions about whether high or low home ownership rates are desirable or not.

However, what we might sum up from Chart 1 is that two-thirds, or 65%, of the households in these countries are owner occupiers and one-third are renters. And if we looked closer at the countries that we are more familiar with: UK (64.3%), Switzerland (36.3%), USA (63.7%), Germany (45.4%), France (57.7%), Japan (61.1%) and Australia (67.0%), we might ask why these advanced, wealthy nations have home ownership rates significantly lower than Singapore?

Chart 1: Singapore ranks third in this chart comparing owner-occupier rates for homes across 35 countries. But is it a good thing?



Source: Century 21 (IPA); Eurostat, People in the EU: Who we are and how do we live 2015 edition; Australian Bureau of Statistics (from population census 2011); Statistical Survey Department, Statistics Bureau, Ministry of Internal Affairs and Communications, Japan (from population census 2013); SingStat (2014)

These countries have a good stock of rental properties and they have sufficient legal protection for the low income families not to be exploited by unreasonable landlords. Furthermore, they are generally balanced in their desire to own homes: many do not want to be tied to mortgage payments and there is an inclination to rent homes and have the flexibility to move as their career, lifestyle and needs change. There is nothing to show-off about, no “glorification” about owning a home. Likewise, there is no taboo in renting. As an analogy, owning a car does not mean a person is rich, neither does taking a bus mean that a person is poor.

As with all things in life, there has to be a balance. Getting into the extremes such as excessive investments in properties will backfire on us. Just as a pendulum pulled aside is sure to swing back to equilibrium.

Let us take another leaf from Singapore Airlines (SIA). In the mid-1990s, SIA became the largest operator of the Boeing

747 aircraft in the world. But the risks were identified a couple of years prior: product obsolescence, undetected design flaws or technological leaps in aviation could make SIA's B747 fleet irrelevant and worthless. SIA swiftly embarked on a controlled sale-and-leaseback programme for a portion of the B747 fleet, passing the asset ownership risks to external investors while still operating a very profitable airline. SIA struck a balance between having security of ownership versus asset risks.

An advertisement at a bus stop by the HDB and the Ministry of National Development touting the benefits of owning HDB flats without having to fork out cash for monthly loan repayments.

Singapore residents and our policy makers may well take a leaf from the examples above. We should learn not to view renters in a negative light. We should never overly promote home ownership without highlighting its inherent risks.

Over time, home ownership may moderate down to 80-85% level. And over the next 20 to 30 years as our retiree numbers balloon, our society will not suffer from having too many "asset rich but cash starved" old folks amongst us. And if young Singaporeans were similarly educated about home ownership risks, we will start to see more money invested into value-creating businesses instead of being locked up in properties.

Germany is the world's role model for the Small & Medium-sized Enterprise (SME) sector. Economists generally agree that moderate residential asset values and a home ownership rate of below 50% are contributing factors to having a strong SME engine that powers the German economy. If Singapore were serious about entrepreneurship, encouraging youngsters to start-up businesses and nurturing innovation, we have to manage our excessive home ownership ratio slightly downwards

How do we take the next step in growing the local renter pool?

As a first step, let us focus on taking care of the needs of the lower income families. HDB can expand the total number of rental flats through holding on to returned flats, confiscated flats, or those that might have expired leases. As of 31 March 2015, HDB was managing 53,388 flats for renters. Over 50,000 of these are in the 1-room and 2-room categories. HDB could quickly take up some of the unsold 3-room and 4-room flats that are available under the current "Sale of Balance Flats" and when they are constructed, offer them as rental units for the larger families that are facing financial difficulties. Over the next 10 years, HDB can build up a stock of more than 100,000 flats (or 10% of total stock), that is managed by HDB for families that want to rent. Low income families who need financial assistance will be able to rent at subsidized rates. However, some flats could be let out to Singapore residents (not foreigners and job pass holders) based on market rental rates.

Secondly, extending our helping hand for the lower income families further, what about allowing them to pay a portion of the monthly rentals with their CPF money? This will allow them a higher disposable income to afford better healthcare and more comfort in their daily lives.

Thirdly, to encourage private developers to participate in the rental market, half of the residential sites offered under the Government Land Sales (GLS) programme should include a condition that such sites cannot be strata-titled or sold for 10 years from completion. This will encourage developers and to build up a stock of condominiums designed for long term rental. In fact, a further benefit of this scheme is that it will result in higher quality design and construction as the developer will commit to maintaining it for 10 years. Knowing that they need to appeal to tenants' enjoyment when living in these apartments, developers may immediately cease designing in completely useless concrete ledges, wasted corners, excessive bay windows, planters, balconies and terraces. The more functional and appealing to renters, the higher the financial returns will be. The ease of maintenance will also be considered thoroughly before construction, and this will lead to less wastage with more environmentally friendly features that should last beyond the 10-year period (as that is when the developer might consider divesting the entire building).

The past decade of massive building of strata-titled condominiums, coupled with our enbloc sales fever, has led to developers and construction companies putting in the barest quality with the view that in 20-30 years' time, the entire estate will go enbloc, demolished for another new development.

Growing a sizable pool of renter market, even amongst the middle to high income Singapore residents, will help to support this proposal of non-strata-titled residential sites. This will, in time, reverse the quality issues that several newly completed residential projects have demonstrated.

Taking this idea one step further, in addition to offering the "not-for-strata-title" residential sites under the GLS programme, any developer who offers to restrict their existing residential projects or enbloc sales sites under this scheme might be given a grant of additional floor area, to incentivise developers to build homes that will last for generations.

Conclusion

I started off this chapter quoting George Bernard Shaw: "Progress is impossible without change." The home ownership drive has served us well during the nation building years of Singapore. But in today's context, I am suggesting that we should re-evaluate our needs, that perhaps the drivers should take their foot off the accelerator and introduce policies to balance the residential market with a pool of households that are renters.

It is dangerous to cling on to policies which are losing relevance for our future. Just like the "Stop at 2" policy or an education policy that favoured practical engineering degrees over pure scientific research or music and the arts, once the policies are allowed to run past their "sell-by date", some damage would have been done, and reversing them may be next to impossible.

At the very least, for the sake of our aging population and changing lifestyles, let us consider whether the home ownership policy should be tweaked. And make that consideration an integral part of a new "Master Plan for an Aging Singapore" which should encompass the next 50 years of our journey.

18 Better to rent than to buy

Article was co-authored with Paul Ho, CEO of iCompareloan.com — Singapore's leading Mortgage and Loan comparison portal

21 August 2015, The Edge Property

Residential property prices have softened by 7% over the last two years. A common question we hear these days is, "Should I buy now?"

Given all the facts about the over-supply of residential properties, glaringly high vacancies, declining rentals and the threat of imminent interest rate hikes, many are still itching to enter the market.

We examine the case the Tan family, which has a household income of $14,000 per month. The Tans are looking to upgrade to Bukit Timah from Seng Kang as their children study in the top secondary schools and they could not bear to see the children commute over two hours each day to and from school. They are considering a 1,345 sqft, 3+1 bedroom private apartment whose owner has advertised it for rent at $4,500 per month and for sale at $1.65 million.

Sell and rent in Bukit Timah

If the Tans sold their Seng Kang HDB flat for about $450,000 and rented the private apartment for the next four years, their household expenses for accommodation could be locked in at $4,500 times 12 (months) times 4 (years) = $216,000.

Let's assume they received $250,000 of CPF money and another $200,000 in cash from the proceeds of selling their HDB flat. Over the next four years, together with their monthly CPF contributions, they would have earned 2.5% interest on their CPF balance in the ordinary account, or around $12,600. The $200,000 cash they received, if prudently invested would have return at least 3% per annum or about $25,000 over the four years.

Overall, the rental payments and the additional returns from investments would be equal to a net expense of about $178,400. On a cash basis, because the interests earned in CPF cannot be used for rental expenses, the Tan's would have reduced their cash position by $191,000.

Sell and buy

If the Tans sell their Seng Kang HDB flat for about $450,000 and buy the private apartment, they will need to top up $210,000 in order to pay a $660,000 downpayment, a prudent decision not to stretch their lending beyond the 60% loan-to-value ratio. Their CPF contribution would be $300,000 and their cash contribution is $360,000. They will take a 25-year loan of $990,000 at a rate of 1.7% per annum. In this case, their costs for the next four years would be: $220,461. (See table on next page)

Table 1: Total ownership costs of a private apartment costing $1.65 million over four years.

Cost items	Costs	Remarks
Stamp duty	$44,100	3% ($5,400). Once off expense assuming no Additional Buyer Stamp Duty
Valuation fee	$500	Once off expense
Legal fee	$3,000	Once off expense
Maintenance and sinking fund	$20,160	$420 monthly * 4 years
Property tax (1)	$6,496	$1,624 per annum * 4 years
Interest expenses	$62,991	Assuming interest rates stay flat at 1.7% during this four-year period
Forgone interests from CPF used for downpayment (2)	$31,144	Assumes CPF Ordinary Account interests of 2.5% per annum
Forgone interests from CPF withdrawn for monthly mortgage repayments	$6,970	Ditto
Forgone earnings from reinvesting $360,000 cash (3)	$45,100	Assuming returns of 3.0% per annum
Total	**$220,461**	

1. The Annual Value (AV) of buildings is the estimated gross annual rent of the property if it were to be rented out, excluding furniture, furnishings and maintenance fees. It is determined based on estimated market rentals of similar or comparable properties. By observation, for slightly older properties, AV tends to be slightly lower than actual rental rate. Hence our assumption of AV at 90% of rental value, i.e. $48,600. Since Mr and Mrs Tan are owner-occupiers, they are subject to the "Owner-Occupier tax rate".
2. By withdrawing $300,000 from the CPF for downpayment and using CPF to service the monthly mortgage payments, the Tan's would have forgone the opportunity to earn $31,144 and $6,970 respectively which the CPF Board would have credited to their Ordinary Accounts as interests.
3. The $360,000 cash component of the downpayment could be invested in safe instruments to generate returns of at least 3.0% per annum.

Rent versus buy?

Over the four year period of 2015-2019, while the total rental of the apartment is $216,000, the prudent reinvestment of the Tans' cash from the sale of their flat could defray their rental expenses to $178,000. In comparison, the total ownership costs for this apartment is expected to be about $220,461.

So it is clear that in the above example that the Tans should rent.

But to convince the Tans further, let us consider the outlook for rentals, ownership costs and home prices.

Facts and current market data

According to data from the Urban Redevelopment Authority (URA), as at 2Q2015:

1. 2,391 Executive Condominium (EC) units are vacant, representing 14.1% vacancy rate.
2. 16,626 ECs are being developed and 7,124 were launched and sold.
3. 25,071 private residential units are vacant (7.9% vacancy rate), out of which 22,797 are non-landed residences. The vacancy rate of non-landed residences is 9.2%. This is higher than the 7.3% in mid-2009 during the recession caused by the Lehman crisis and almost reaching the 10% vacancy experienced during the four-year residential market lull between 2002 to 2005.
4. 67,211 more units of private residences will be completed in the next four years. 36,802 of these have been launched and sold.

Rental outlook

The total number of vacant private residential units increased 58% from 15,833 two years ago to 25,071 units in 2Q2015 but the rental index merely dropped 6% over the same period. With the strong supply expected in the public housing, EC and private residential segments, we expect rentals to be pressured downwards by as much as 30% in the next three years.

We can safely assume that the Tan's should be able to reduce their rentals by 12.5%, from \$4,500 to \$4,000 per month, when they renew their tenancy in two years' time. This will reduce their four-year total rental expenses by \$12,000.

Outlook on ownership costs

Home owners have enjoyed a low interest rate environment for the last six years and the possibility of Singapore's home loan rates staying flat at 1.7% per annum from 2015 to 2019 is small. Assuming that interest rates rose moderately to 2.5% per annum in the third and fourth years of the Tan's home mortgage, their interest expenses and home ownership costs will increase by \$14,438.

One item that might be reduced will be the property tax. After market data for rentals reflects a decrease, the annual value of properties will be reduced by the Chief Assessor. Depending on how promptly the Chief Assessor reacts to the declining market rentals, the reduction of property tax might save the Tan's about \$2,000 in the four-year period.

Overall home ownership costs should increase in the next few years, especially as a property ages and maintenance bills weigh in.

Price outlook — cut by scissor blades

With a supply glut building and a slowdown in employment, residential vacancy rates are expected to double by 2017 to 50,000 units. This outlook for decreasing rents should also coincide with a period of increasing interest expenses. This double whammy should cut like the blades of a pair of scissors where declining rentals meet with rising interest expenses.

If the economic outlook remains benign and current manpower and housing policies remain steady, we expect private residential prices should drop by another 30% before flattening off.

In the case of the Tan's, should the price of their Bukit Timah apartment fall by say 20%, their paper loss will be equivalent to

$330,000 and that is as good as more than six years of rental expenses.

Conclusion

The above vacancy outlook is derived from actual construction pipeline schedules and extrapolating the past few years of demand into the future. There is no let up on the supply once sales and construction have begun. Therefore, unless future demand can exceed the construction pace of the last eight years spurred by high population growth, any investor buying an apartment today should expect the tenant to pay lower and lower rentals in the next four years.

Many people in the industry do not like this view, preferring to stick their heads in the sand and hoping that the lifting of cooling measures will revive investor demand. Perhaps they are correct. But the lifting of cooling measures will not bring sufficient tenants to fill up the expected 50,000 vacant private residences in 2017. And we have not even discussed the massive supply in Iskandar!

The case is very clear: it is better to rent than to buy. At least for the next four years.

ABOUT THE AUTHOR

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Swee Yong started in the real estate industry when he took on the position of General Manager at Far East Organization's Indonesia office. He then joined Savills Singapore as the Director of Marketing and Business Development and subsequently as Director at the Real Estate Centre of Expertise in Société Générale Private Banking.

Swee Yong has bought, sold, leased and managed properties for high-net-worth individuals, corporations, property developers and funds. He has also provided consultancy services and advice to private banks and their clients. His views are widely quoted in reputable media and he speaks at closed door events addressing private banking clients, fund managers and industry practitioners.

Swee Yong studied at Raffles Institution and Hwa Chong Junior College. With a scholarship from Singapore Airlines, he completed a BSc (First Class Honours) at the Imperial College of Science, London, UK. He participated in the Erasmus Programme (European Union student exchange programme) at Institut Louis Pasteur, Université de Strasbourg, France, where his research in organometallic chemistry resulted in the discovery of new molecules, one of which was completely characterised and published in an international journal in 1997. Swee Yong also has an MBA (Strategic Marketing) from the University of Hull, UK.